

EXPLORING THE RELATIONSHIP BETWEEN FINANCIAL LITERACY AND BUSINESS RESILIENCE: A CONCEPTUAL PAPER

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Abstract: *The paper creates a conceptual model that expounds financial literacy and business resilience among Malaysian micro, small, and medium-sized enterprises (MSMEs). Business resilience refers to firms' ability to forecast, withstand, and adapt to disruptions. With the current epoch of economic shocks, technology disruption, and weather challenges, business resilience is imperative. Financial literacy—behavior, knowledge, and attitudes towards managing money—is one of the most important intangible assets that enables entrepreneurs to make informed decisions, manage cash flow, and access external finance. While important, the evidence from Southeast Asia has been inconclusive as regards the direct effect of financial literacy on resilience, with some results suggesting no weak or significant relationships. However, there is contemporary evidence that shows financial literacy, institutional support, and adaptive financial behaviors are responsible for amplifying the effect of financial literacy on resilience outcomes. Grounded on the Resource-Based View (RBV), this article positions financial literacy in a strategic intangible asset that promotes business resilience through its ability to increase preparedness, adaptability, and capacity to recover. The model suggested contributes theoretically by recognizing financial literacy as a hitherto neglected but imperative aspect of building resilience, and in practice offers evidence to policymakers and teachers as to how to integrate financial education and digital finance into SME development programs.*

Keywords: *Financial literacy, business resilience, SMEs, Malaysia, Resource-Based View*

Introduction

The global business environment has become increasingly unstable due to recurring crises in the form of economic downturns, geopolitical conflicts, environmental threats, and rapid technological change. Business resilience is the ability to anticipate threats, absorb shock, and adapt successfully has emerged as a principal driver of firm survival (Duchek, 2020). For micro, small, and medium-sized enterprises (MSMEs), which account for over 97% of firms and nearly 39% of GDP in Malaysia (SME Corporation Malaysia, 2024), resilience is even more critical. The COVID-19 pandemic revealed structural vulnerabilities of Malaysian MSMEs, including liquidity shortages, exposed supply chains, and poor financial buffers (Ali, Ibrahim, & Hassan, 2024). Qualitative studies showed that firms implemented strategies such as supplier diversification, government assistance, and contingency planning to ensure continuity. However, resilience differed across firms, raising the question of what resilient SMEs that have less resilient SMEs lack.

Financial literacy is one such. Entrepreneurs who are financially literate are more likely to successfully manage cash flows, negotiate with creditors, introduce risk management instruments, and make strategic decisions under uncertainty (OECD/INFE, 2023). But Southeast Asian evidence is mixed: while some studies suggest that financial literacy is not a direct determinant of resilience (Surya et al., 2024), other studies recognize that digital financial literacy and adaptive financial behaviors contribute to crisis response in a major way (Nguyen et al., 2023; Kaur & Kapur, 2024).

It is against this backdrop that this article proposes a conceptual model positioning financial literacy as a strategic intangible asset, borrowing from the Resource-Based View (Barney, 1991). This article argues that financial literacy enables MSMEs' resilience through enhanced anticipation of disruptions, financial preparedness, and adaptive decision-making.

Literature Review and Theoretical Foundation

Business Resilience

Resilience in business is the ability of the company to withstand operations and recover from unexpected shocks as well as adapt to long-term problems (Barasa et al., 2018; Duchek, 2020). Today, it is regarded as a strategic resource, which enables firms not just to be resilient but also thrive in ambiguous situations. Resilient SMEs have shown agility all over the world by reorganizing activities, adopting digital tools, and diversifying business models. Resilience in Malaysia is important as SMEs are faced with structural weaknesses including low levels of preparedness, limited access to capital, and lack of resources (Awang Ali et al., 2023). Businesses that become resilient will be able to withstand jobs, remain competitive, and enable recovery within the economy.

Financial Literacy and Business Resilience

Financial literacy (FL) involves knowledge, skills, and attitudes that influence financial decision-making (Lusardi & Mitchell, 2014). FL influences cash flow management, credit accessibility, risk assessment, and investment planning in the context of SMEs. Financially literate entrepreneurs utilize formal accounting methods, negotiate for finance, and anticipate financial risks, thereby becoming resilient.

Empirical evidence is mixed. Surya et al. (2024) showed that FL was a low direct driver of resilience in Malaysia and Indonesia, while institutional support and technology adoption were

more significant. Yakob et al. (2021) and Nguyen et al. (2023) found that FL significantly improved the liquidity management capacity and crisis recovery of SMEs. The more recent work focuses on digital financial literacy (DFL)—fintech tool proficiency, e-payments, and electronic record-keeping as a more robust resilience determinant (Kaur & Kapur, 2024). Combined, the research indicates that FL is still a bedrock but underdeveloped determinant of SME resilience, especially when juxtaposed with digitalization and institutional stimuli.

Underpinning Theory

This paper relies on the Resource-Based View (RBV), which is described as that companies create sustainable competitive advantage and long-term survival through accessing and utilizing valuable, rare, inimitable, and non-substitutable (VRIN) resources (Barney, 1991; Wernerfelt, 1984). RBV emphasizes that company performance is not always due to the external environment but also on the presence of internal resources and the ability to create and utilize them (Peteraf, 1993).

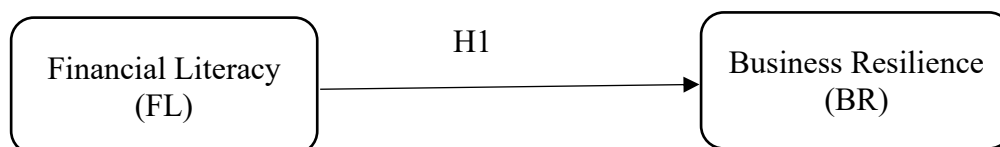
Within the SME context, financial literacy can be described as an immaterial strategic asset that supports resilience. Previous studies mention that intangible assets, such as knowledge, skills, and managerial capabilities, have a significant contribution to organizational survival and flexibility (Grant, 1996). Financial literacy equips entrepreneurs with the ability to interpret financial information, make resource allocation, and plan in conditions of uncertainty (Lusardi & Mitchell, 2014). Through the use of RBV, financial literacy is positioned as a resource that enhances business resilience by enabling SMEs to anticipate risks, withstand shocks, and adapt to change (Duchek, 2020; Yakob et al., 2021).

Conceptual Framework and Hypotheses Development

Drawing on RBV and existing research, it is proposed here that financial literacy increases business resilience directly. Previous research demonstrates that financially educated business owners are able to better deal with cash flow, debt management, and operations during challenging times (OECD/INFE, 2023; Yakob et al., 2021). Financial literacy, under turbulent conditions, enables SMEs to anticipate disruptions and undertake adaptive financial planning, developing resilience (Ali, Ibrahim, & Hassan, 2024).

Therefore, the following hypothesis is offered:

H1: Business resilience is positively affected by financial literacy.



Conclusion

This paper has developed a conceptual framework to explore the relationship between financial literacy and business resilience of Malaysian SMEs. Founded on the Resource-Based View (RBV) (Barney, 1991; Wernerfelt, 1984), the framework positions financial literacy as a strategic intangible asset that directly constructs resilience. By enabling entrepreneurs with financial knowledge, attitudes, and behaviors to make sound financial decisions, financial literacy increases the ability of SMEs to anticipate risks, absorb shocks, and adapt to uncertainty (Lusardi & Mitchell, 2014; Duchek, 2020).

Theoretically, the study contributes to SME resilience literature by identifying the role of financial literacy as an untested but vital resource for continuity and competitiveness (Grant, 1996; Yakob et al., 2021). Practically, the framework offers insights for educators and policymakers to include financial literacy education in SME development programs so that entrepreneurs become more resilient to crises and long-term viability (OECD/INFE, 2023; Ali, Ibrahim, & Hassan, 2024).

Future research is called upon to empirically test the proposed framework by examining the extent to which financial literacy impacts resilience across different SME industries and settings. Such studies will provide evidence-based recommendations for building the resilience of Malaysian and other emerging economies' SMEs.

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